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RUEHRG/AMCONSUL RECIFE 3653
RUEHRI/AMCONSUL RIO DE JANEIRO 8179
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UNCLAS SECTION 01 OF 04 SAO PAULO 000560

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DEPT FOR WHA/BSC, INR/IAA, INR/R/AA
STATE PASS TO USTR FOR SCRININ
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR TOMASULO
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO
TREASURY FOR JHOEK
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SUBJECT: A PSDB INSIDER'S EARLY LOOK AT THE 2008 MUNICIPAL ELECTIONS
AND THE IMPLICATIONS FOR NATIONAL POLITICS

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

SUMMARY

¶1. (SBU) In a recent conversation with Poloff, Walter Feldman, a leader of the Brazilian Social Democracy Party (PSDB) currently serving as Sao Paulo Municipal Secretary of Sports, Leisure, and Recreation, shared his views on local government, next year's municipal elections, and the broader Brazilian political scene. Feldman, who has served as a city councilman, state legislator, and federal deputy, is close to both Sao Paulo's PSDB Governor Jose Serra and Mayor Gilberto Kassab of the allied Democratic Party. He said that while Serra would like to see Kassab run for re-election as Mayor, and Kassab would like to run, it will be difficult for the PSDB to avoid nominating former Governor and 2006 presidential candidate Geraldo Alckmin if he is serious about running, as appears likely. Feldman also opined that though Serra's gubernatorial term has gotten off to a rocky start, he remains the best qualified among likely presidential candidates in 2010 and the front-runner for the PSDB nomination. End Summary.

¶2. (U) Poloff and Political Assistant met June 21 with Feldman, who had just returned from a trip to Shanghai to visit an important sports/recreation center there. He was animated and energetic as he and Poloff discussed China's role in the global economy; U.S.-Brazil relations; U.S. views of Latin America, especially Venezuela and Bolivia; the Middle East situation (a prominent member of the local Jewish community, Feldman was extremely concerned about the Palestinian crisis and the Iraq war; he also commented that the 2006 Lebanon conflict had caused the first breach in cordial relations between Sao Paulo's Jewish and Muslim communities, though he said tensions have since eased); the 2008 presidential election in the

U.S.; and the environment and climate change. He also cited his strong ties with the United States, including time spent living with a U.S. family as an exchange student in Nebraska.

JOCKEYING FOR THE MUNICIPAL ELECTIONS

¶3. (SBU) Feldman believes Gilberto Kassab is doing a "beautiful" job as Mayor, turning in a "surprising" performance. He has shown strong leadership on urban renewal, as evidenced by his "Clean City" initiative (prohibition of billboards and strict limits on the number and size of store signs and marquees); removal of squatters from run-down, abandoned downtown buildings; and closure of bingo and slot-machine parlors. He wants to run for re-election in 2008 but may not be able to, since Geraldo Alckmin shows every sign of wanting the job. Kassab's Democratic Party (DEM, formerly Liberal Front Party) is closely allied with the PSDB in Sao Paulo city and state, and the two parties are unlikely to run separate candidates. If Alckmin, the 2006 opposition presidential candidate, wants to run for Mayor, the PSDB can hardly say no to him. Feldman is fairly sure Alckmin wants to run: "Being Mayor of Sao Paulo is like having your own country," and a local victory could put Alckmin back in the running for president in 2010.

¶4. (SBU) Feldman confirmed that Governor Serra would like to see Kassab re-elected; the two of them "work as an inseparable team, the most effective Governor-Mayor combination in recent memory." Kassab was elected Vice-Mayor on Serra's ticket in 2004, and succeeded him in April 2006 when Serra resigned to run for Governor. Even while demonstrating that he's his own man with his own ideas and political style, Kassab has continued many of Serra's policies and kept a large part of his team in place at City Hall. Good relations between local and state government are critical, as metropolitan Sao

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Paulo comprises almost half the state's population of about 41 million.

¶5. (SBU) If Alckmin does run, Feldman predicted, Minister of Tourism and former Mayor (2001-04) Marta Suplicy may decide to sit the election out. Alckmin, who was a popular Governor with high approval ratings, would be difficult to beat, and Suplicy might do better to wait and instead run for Governor in 2010. Considered by many in President Lula's Workers Party (PT) the party's most attractive possible successor to Lula, Suplicy has considerable support in the city but also has many detractors. 2008 is right around the corner, Feldman noted, and opponents and media will still be replaying her recent gaffe at every opportunity. At a June 13 public event to launch the government's National Tourism Plan, Suplicy was asked what message she had for travelers inconvenienced by Brazil's seemingly unending civil aviation crisis. "Relax and enjoy," she replied, "because afterwards you'll forget all about" the long delays, flight cancellations, and general chaos in the airports. She compared the challenges of air travel in Brazil to the rigors and pains of giving birth. If Suplicy does decide not to run, Feldman said, any other candidate from President Lula's Workers Party (PT) will have a hard time defeating Alckmin, but the party will look for someone who can rally the faithful and enable the party to elect a decent number of candidates to the City Council. (Note: Many observers believe that the PT's Arlindo Chinaglia, President of the federal Chamber of Deputies, is positioning himself to run. End Note.)

SERRA'S WOES...

¶6. (SBU) At the state level, Feldman noted that Governor Serra has had a "very difficult" first six months in office. In January, a cave-in at the construction site of a new subway line - promoted by the state government as Brazil's first Public-Private Partnership (PPP) project - caused seven deaths. There have also been sporadic strikes by public transportation workers with concomitant traffic nightmares. A group of students at the public, state-run University of Sao Paulo (USP), accusing the state government of trying to

interfere in the university's operations and to undermine its independence, occupied the Rectory on May 3 and refused to vacate it. Serra, himself a former leader of the National Students' Union (UNE), has been reluctant to send in police even as authorities' patience runs out. (Note: On June 21, students agreed to a negotiated settlement with the Rector and ended the occupation the following day. End Note.) University faculty and staff briefly went on strike, ostensibly to show solidarity with the students but also to demand higher salaries. Serra managed to push through legislation altering pension benefits for state employees, but at considerable political cost. If problems persist and Serra fails to show strong leadership, it will impact negatively on his 2010 presidential aspirations. In some respects, his principal rival for the PSDB nomination, Minas Gerais Governor Aécio Neves, appears to have an advantage because he can show more accomplishments in office.

...AND STRENGTHS

17. (SBU) Nevertheless, Feldman is convinced that Serra will ultimately achieve his goals for the state and will capture his party's presidential nomination as well. The state's public security situation has been relatively calm. Serra is focused on infrastructure improvements: expanding the public transportation system, completing the freeway around the city, creating "development clusters," and improving access to the Port of Santos.

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(The port itself is operated under a federal concession with little state government involvement.) Serra, in Feldman's view, is the best-prepared of any potential candidate to be President. Unlike Lula and Fernando Henrique Cardoso (FHC), Serra (who has a PhD in Economics from Cornell) actually understands macroeconomics and would not just "sit back and let the Central Bank do what it wants." He would enunciate a clear interest rate policy and a clear exchange rate policy and would ensure they were implemented.

WANTED: POLITICAL LEADERSHIP

18. (SBU) The country is doing reasonably well economically, Feldman said, but this performance is not being matched on the political side. What Brazil needs, in his opinion, is courageous leadership to push through necessary but unpopular reforms. Reforming Social Security will be painful, but it must be done to rein in its huge deficits. Brazil's labor legislation, enacted in 1943 by Getulio Vargas's regime, needs to be overhauled completely to be viable in today's economic system, to untie the hands of business. The tax burden must be reduced and the tax regime simplified to allow the economy to grow. Feldman noted that when Mayor Kassab first told his staff of his plans for "Cidade Limpa," his senior political advisors were dismayed and tried to dissuade him, arguing that a fight with the advertising industry and the business community promised nothing but trouble; despite this opposition, Kassab insisted on following through and achieved a great success. (Comment: The prohibition on billboards and restrictions on other outdoor advertising have generated more than 100 legal actions and a number of judicial restraining orders; so far, the city seems to be winning in court more often than it loses. The advertising industry claims the law has cost many jobs, and small business owners complain that customers have a hard time finding stores due to the limitations on signs. End Comment.) Feldman wishes national politicians would show similar determination.

19. (SBU) Feldman acknowledged that his own PSDB is in a difficult position. The Lula administration has co-opted so much of the PSDB agenda, on social as well as economic issues, that the party cannot easily mount effective opposition. How (and why), he asked rhetorically, should the PSDB oppose the very efficient Minister of Education after he put forth the Plan for Education Development (PDE) to correct systemic problems? Or the Health Minister, the best of the four Lula has appointed? And Feldman acknowledged that the administration's Growth Acceleration Program (PAC), if ably

implemented - a big if - will help stimulate the economy. Ultimately, Feldman said, the only real divergence between the PT and the PSDB is in the area of ethics. In contrast to the constant scandals involving the PT and the Lula administration, the PSDB would provide clean, transparent, efficient government, he asserted. (Comment: The PT over the past few years has clearly forfeited its image as the "party of ethics" and the one that is going to change the way business is done in Brazil, but FHC's two terms in office were hardly scandal-free. End Comment.)

¶10. (SBU) Feldman sees the 2006 elections as having brought to a close the political cycle that began in 1985 with the restoration of democracy. For the first time, Lula will not be a presidential candidate. Feldman predicts that Lula will support someone from the PT who is close to him - he mentioned Civil Household Chief Dilma Rousseff and Bahia Governor Jaques Wagner but not Justice Minister Tarso Genro - but will not be terribly disappointed or even surprised if the opposition wins. This will serve both Lula's personal interests - leaving him in a better position to run again in 2014 - and will be consistent with his political belief that alternation in power is good for the country. Feldman confirmed recent media reports that both Lula and Serra would like to abolish

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presidential re-election, limiting presidents to a single five-year term (versus the current four years with the possibility of two consecutive terms), and that the two parties had discussions about working together to accomplish this goal, but that the talks were suspended after they leaked.

¶11. (SBU) Real political change remains elusive, Feldman lamented, pointing to the recent debate in Congress over the government's political reform proposal, in which proponents of a "closed party list" voting system withdrew the initiative when opposition by PT dissidents and the PSDB rendered its passage impossible. Like FHC and many others in the PSDB, Feldman would prefer a single-district voting system as opposed to proportional representation, in which candidates run at large to fill (for example) Sao Paulo's 70 seats in the Chamber of Deputies and are elected based on a combination of the party and personal vote, but he acknowledged that the many politicians who benefit from the current system are unlikely to allow it to change fundamentally. Like Lula and FHC and their predecessors, the next president will likely have to deal with a Congress of 17-18 political parties, many of them "dwarfs" and "rent-a-parties" that offer little of a constructive nature but are good at obstruction and distortion.

COMMENT

¶12. (SBU) Feldman is shrewd political operator who has influence far beyond his modest post in the city government. His decision to run for Federal Deputy and then, having won, to relinquish his seat almost immediately to return home as Sao Paulo Secretary of Sports suggests that he aspires to bigger things locally, perhaps as Vice-Mayor in 2008. His insights into internal PSDB politics and the challenges facing the party track with what other observers have told us. Like his PSDB colleague Assistant Mayor and Municipal Secretary Andrea Matarazzo, he is loyal to Governor Serra. At this

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early date he sees Serra as the front-runner for 2010, and probably envisions a major role for himself in the campaign and in a Serra administration. End Comment.

¶13. (U) This cable was coordinated with Embassy Brasilia.

MCMULLEN